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PS/Secretary of State for Industry

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Private Secretary to the Prime Minister  
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28 July 1980

Prime Minister

*at the Lyham*

A gloomy

Dear Tim,

catalogue.

*MB*

*Very - low cost  
industries - this*

Following the Prime Minister's discussion with Lord Trenchard at lunchtime today, my Secretary of State promised to let her have a note giving examples of the range of circumstances of various sectors of industry. I attach a note which classifies industries into four categories ranging from those sectors that are particularly hard hit to those who can be described as successful. I should emphasise that the note is partial; for example it excludes vehicles and clothing. More importantly, it excludes food, drink and tobacco and pharmaceuticals, sectors which are not sponsored by this Department but which are relatively successful.

*state effort*

*2/7*

*to support*

*so many*

*gloom*

*members*

*in*

2 I should also emphasise that one crucial point which needs bearing in mind throughout is that the variability between companies within a sector may well be as great as the variability between sectors. Finally, I should say that the note is intended as background briefing rather than as material which can be drawn on in any speech.

*))=!*

Yours ever,  
Pete

PETER STREDDER  
Private Secretary

*Would it  
help industry  
if we reduced  
))=! number  
?!*

*mb.*



## SITUATION AND PROSPECTS OF INDUSTRIAL SECTORS

### A. Sectors Particularly Hard-hit

Sectors such as textiles, cutlery and newsprint have been in difficulty of one kind or another for many years, and are clearly in no position to withstand the current combination of high domestic inflation compared to that in competitive countries, relatively high interest rates, a strong and rising pound and falling demand. The decline of these sectors was, perhaps, never reversible except through disproportionate state support; but this decline has now accelerated with consequences we might have hoped to avoid.

2 On the other hand, sectors such as consumer electronics, where in many cases the UK was quite successful until fairly recently, are succumbing to the "deadly cocktail" of economic circumstances. Such sectors, which were thought to have a basic capacity for success, may be debilitated to the point of no return.

#### PAPER AND BOARD

3 With a few exceptions such as tissues, this is a sector in long-term decline which will be accelerated by the recession. We are at a severe disadvantage to competitors with large timber supplies and hydro-electricity. Products abandoned: we are being driven out of newsprint production. Company Closures: Bowaters, Ellesmere Port may well close down. There have already been several other closures. Measures taken: short-time working is widespread. About half the sector is losing money. About 5,000 redundancies can be expected, though most of the sector will survive.

#### LEATHER

4 This sector was thought to be viable on the whole, but is now in serious difficulty. Practically all companies are operating at a loss. Only a handful will survive another 12 months of present conditions. 11,000 jobs may be lost.

#### TEXTILES AND CARPETS

5 - This sector is suffering a long-term decline which the present climate is accelerating. All of the carpet industry and 95% of textiles is loss-making. About 85% of the sector can survive another 12 months of difficult conditions, provided the Temporary Short-time Working Compensation Scheme is extended. About 55,000 jobs will be lost.



## CUTLERY

6 This is another sector suffering long term decline, and its problems are well known. About 60% of companies in the sector are making losses but about 70% of the sector can probably survive for a year, with a job loss of 1,000.

## CONSUMER ELECTRONICS

7 The low-technology end of this sector, eg portable radios, had already succumbed to low cost Far East competition and its decline cannot be blamed on current adverse conditions. The effect on the up-market sectors is rather more worrying. The whole sector is loss-making. About 10,000 jobs are at risk.

## LOW TECHNOLOGY CONSUMER ELECTRONICS

8 This sector is in long-term decline which will be accelerated by the recession. Far East producers have captured the market by low cost mass production and import penetration is over 80 per cent. Products abandoned: we have virtually withdrawn from portable radios and cassette recorders. In-car entertainment is little better off. We are rapidly being driven out of monochrome televisions and music centres. Company closures: Rank Radio International (Music Centres) has closed. So have Thorn Consumer Electronics' monochrome TV factory and Grundig's Belfast factory. There have been redundancies and lay-offs throughout the sector. Measures taken: there seems relatively little scope for remedial action by management.

## COLOUR TELEVISION

9 This sector has been thought to be viable but is likely to be severely damaged by the recession. It has invested heavily to restore its competitiveness but is now threatened by market conditions. The proposed increase of taxation on TV rental companies will exacerbate the problem. The industry believes that import protection is essential to tide it over until it is re-established.

## SPECIALIST HI-FI

10 This sector has been thought viable but is likely to be damaged by the recession. It is a sector of low volume, export dependent business with many small firms. We have been competitive in the past but present conditions put the sector at risk. Measures taken: there have been redundancies and lay-offs, for example, at KEF and Celestion, two manufacturers of high quality loud-speakers, an area where the UK has been a leader.



## B. Sectors of Varied Experience

11 Mechanical engineering is a representative sector of very mixed experience both as regards sub-sectors and firms. A few examples follow from which generalisations should not be made.

### MECHANICAL ENGINEER - MACHINE TOOLS

12 This sector is thought to be viable and on the whole will not be seriously damaged by the recession. The advanced sectors eg numerical control, robots, show good signs of an improved technological position which can be exploited when the upturn comes. But there is heavy reliance on the motor industry for demand and the traditional sectors, such as heavy power presses, have a poorer outlook. The situation is very mixed: Jones & Shipman, for example, are working overtime. Products abandoned: gear grinding and jig grinding machine tools production is at risk. Company closures: Herberts have collapsed; some parts of large groups are closing, eg Stirk (Elliott Group) and Staveley's Asquith plant. KTM is being starved of funds by its parent Vickers. Measures taken: the following measures are being taken across a broad band of the mechanical engineering industry. These remarks therefore apply also to the following five industrial sectors of the mechanical engineering industry. De-manning and stock reductions have occurred. Efforts are being made to preserve product development programmes. There is a determination to contain pay settlements to 12 per cent compared to the 16 per cent conceded last pay round. There is still a great deal of confidence both in Government policies and in the business outlook throughout a broad swathe of the mechanical engineering industry. 10% of the machine tools sector is loss-making and 6000 jobs may be lost.

### MECHANICAL ENGINEERING - SPECIALISED MANUFACTURING MACHINERY

13 This miscellaneous sector has been thought viable but is likely to be damaged by the recession. These are industries where it is essential to preserve a technological lead. The ability to do this is being seriously weakened by pressure on liquidity. Products abandoned: injection moulding machinery is at risk but management action at the main UK company is now being taken. Company closures: Vickers heavy engineering interests are in decline. Profitability varies from food processing machinery (10% loss-making) to textile machinery (55% loss-making). About 5000 jobs may be lost.

### MECHANICAL ENGINEERING - MINING MACHINERY

14 This sector is viable and should not be seriously damaged by the recession. A history of successful exporting and the prospect of greater worldwide emphasis on coal are favourable factors. The sector is profitable.



## MECHANICAL ENGINEERING - OFFICE EQUIPMENT

15 This sector has been thought viable but is now likely to be damaged by the recession, though there will be exceptions. Major firms with advanced products eg Rank Xerox should have little difficulty but smaller, technology-based firms as well as firms with mechanical products are at risk. Products abandoned: we no longer make office typewriters. Chubb is likely soon to cease production of cash registers.

## MECHANICAL ENGINEERING - METAL PRODUCTS

16 In this sector are included products like industrial fasteners and bearings which are heavily dependent on the declining UK automotive industry and such sectors will tend to survive only on a reduced scale. Bearings are still performing surprisingly well. It is difficult to generalise about so diverse a sector. Company closures: the closure of GKN's remaining industrial fastener companies is possible though those which GKN has already sold off are doing quite well.

## MECHANICAL ENGINEERING - MISCELLANEOUS CONSUMER GOODS

17 This sector has been considered viable but is likely to be damaged by the recession. Some sectors such as gas appliances, clocks and watches and hand tools are faced with individual problems on top of the downturn in demand. But these sectors are so diverse that an overall judgement is almost meaningless. Products abandoned: domestic sewing machines are no longer made here.

C. Sectors which are "holding their own"

## ELECTRONIC COMPONENTS

18 With one exception, this sector is viable and should not be seriously damaged by the recession, but prospects will be weakened if new developments are not exploited. Products abandoned: we are likely to be driven out of discrete passive components by high volume producers like Japan. Only about 5% of companies are loss-making.

## TOYS

19 This sector is thought to be viable and should not be badly damaged by the recession. Despite the gravity of the situation, the industry is vigorous and entrepreneurial. In the past it has proved its ability to overcome setbacks. At present, however, most companies are loss-making. Company closures: Dunbee-Combex-Marx has gone into receivership. Measures taken: redundancies are widespread; there have been 2,000 at Lesney.



## MECHANICAL HANDLING EQUIPMENT

20 This sector is mostly viable and will not be seriously damaged by the recession. There has, however, been a sharp decline in orders. Products abandoned: heavy fixed crane production may be on the way to discontinuation. Company closures: Stothert & Pitt and Herbert Morris (Davy Group) are at risk. Measures taken: there have been redundancies and short-time working is common. Most of the sector is profitable and about 95% of jobs should be preserved this year.

21 Numerous other sectors could be included in this category. Examples, without going into detail, are industrial electrical equipment, scientific instruments, private steelmaking and foundries.

### D. Successful Sectors

#### COMPUTERS

22 This sector is viable and should not be much harmed by the recession. Growth is reduced from the 20 per cent which firms might have expected, to a level of 10 per cent which many other sectors would find more than satisfactory. But profits are being squeezed and there is a shortage of resources for market and product development in this sector, which requires to spend substantial sums. The smaller firms are the worst affected. Government procurement is an important factor in demand. Company closures: one small company has gone into liquidation and another is in difficulties. Measures taken: ICL will have to reduce its R&D spending unless the situation improves. Nearly all of the sector is profitable and there are still many job opportunities.

#### AEROSPACE

23 This sector is viable and should not be badly damaged by the recession. It has full order books but is highly dependent upon Government purchasing, which is possibly a more important factor than the short-term economic climate. Measures taken: no measures are needed, there is no short-time working, no lay-offs or closures are in prospect. Rolls Royce is the only loss-maker.

#### VARIOUS CHEMICAL, PLASTIC, RUBBER AND OTHER GOODS

24 Covered in this paragraph are tobacco, man-made fibres, rubber goods, asbestos, industrial gases, bulk organics, plastics, paints, toiletries, soap and detergents. These sectors are regarded as viable and should emerge from recession in a reasonable state. Certain areas are being badly affected by low US feedstock prices. Company closures: several firms are at risk eg Nypro (Nylon 6 Monomer), Turner & Newall, Steetley, Ilford. Measures taken: lay-offs, short-time working, redundancies, cut-backs in stocks, R and D and capital investment have all occurred in order to minimise the effect of the recession. It is hard to generalise too much but despite pockets of unprofitability this sector is quite successful.



#### TELECOMMUNICATIONS

25 This sector is generally viable and not likely to suffer severely from the recession although there are exceptions. It is in the process of changing from analogue to digital technology. An example of this is the development of System X, for which British Telecommunications' investment programme is crucial. The export potential of System X, which will not be ready for delivery until 1982/83, is threatened by Western European and Japanese competition. The end of the Post Office monopoly poses both a challenge and a threat to UK makers of terminal equipment. The sector is making profits and the great majority of jobs will be retained.

#### BROADCASTING EQUIPMENT

26 This sector is viable and is unlikely to be seriously damaged by the recession. However, the industry depends on the public sector and on exports. So far our competitiveness has been adequate but further deterioration could make the overall assessment above optimistic. The industry will be buoyed up by work for the fourth television channel and by public sector orders for short-wave radio transmitters. Considerable investment will be needed for the change to digital technology.

Department of Industry

July 1980